The Real Estate ANALYST

SEPTEMBER 1944

Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends....Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies.... Surveys....Forecasts

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

VOLUME XIII

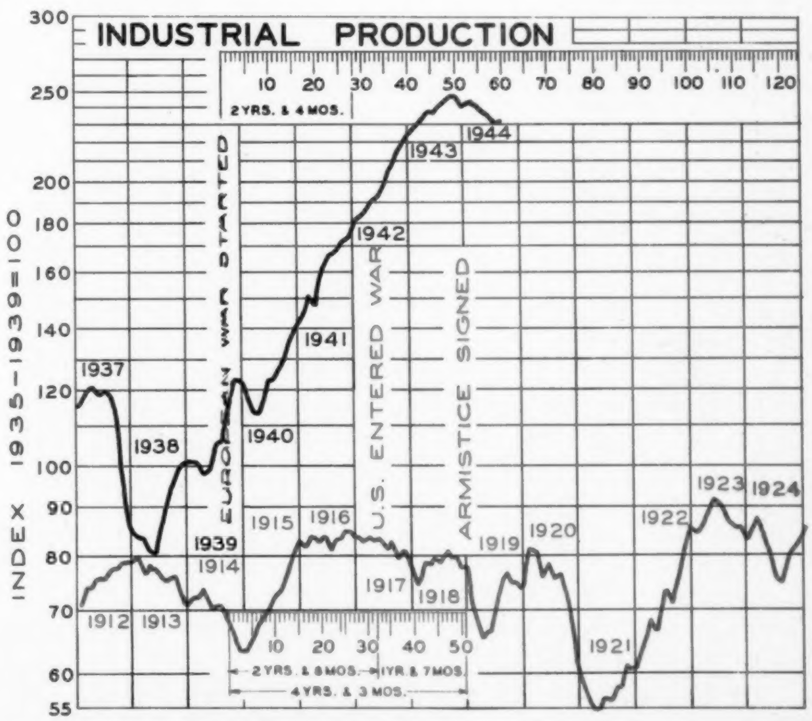
THE BUSINESS OUTLOOK

INDUSTRIAL production in the United States hit an all-time high in October and November of 1943 at 247% of the 1935 to 1939 average. The chart below shows the relative comparison of industrial production during the present war period in contrast with industrial production in the First World War period. The mechanized character of this war is at once apparent against the First World War when industrial production did not rise much higher than it had been in the prewar period.

The last figure available on industrial production is the figure for August - 232% of the 1935 to 1939 average. This is 6.1% below the October-November peak. In our forecast issue at the beginning of the year we said that we expected industrial production by the end of the year to be off 20% from the peak. This would require a level of 198 on our chart in December. Whether industrial production will drop that fast and that far by the end of the year will depend on how soon and how completely German resistance collapses. Even though the present war should run over into 1945, we believe that industrial production would continue to drop at a rate slightly faster than the rate of the last six months. If the war continues in Europe, we believe it possible that industrial production will drop to 210 by the end of the year, which would be a drop from the peak of 15% in place of the 20% we forecast.

How far will industrial production drop during 1945? Must we anticipate a deep depression with its resulting sharp contraction of the demand for real estate, or will the reconversion period be relatively mild?

The truth probably lies somewhere between the two extremes. Undoubtedly it will be a major shock to reconvert to civilian production, but we believe that the amount of



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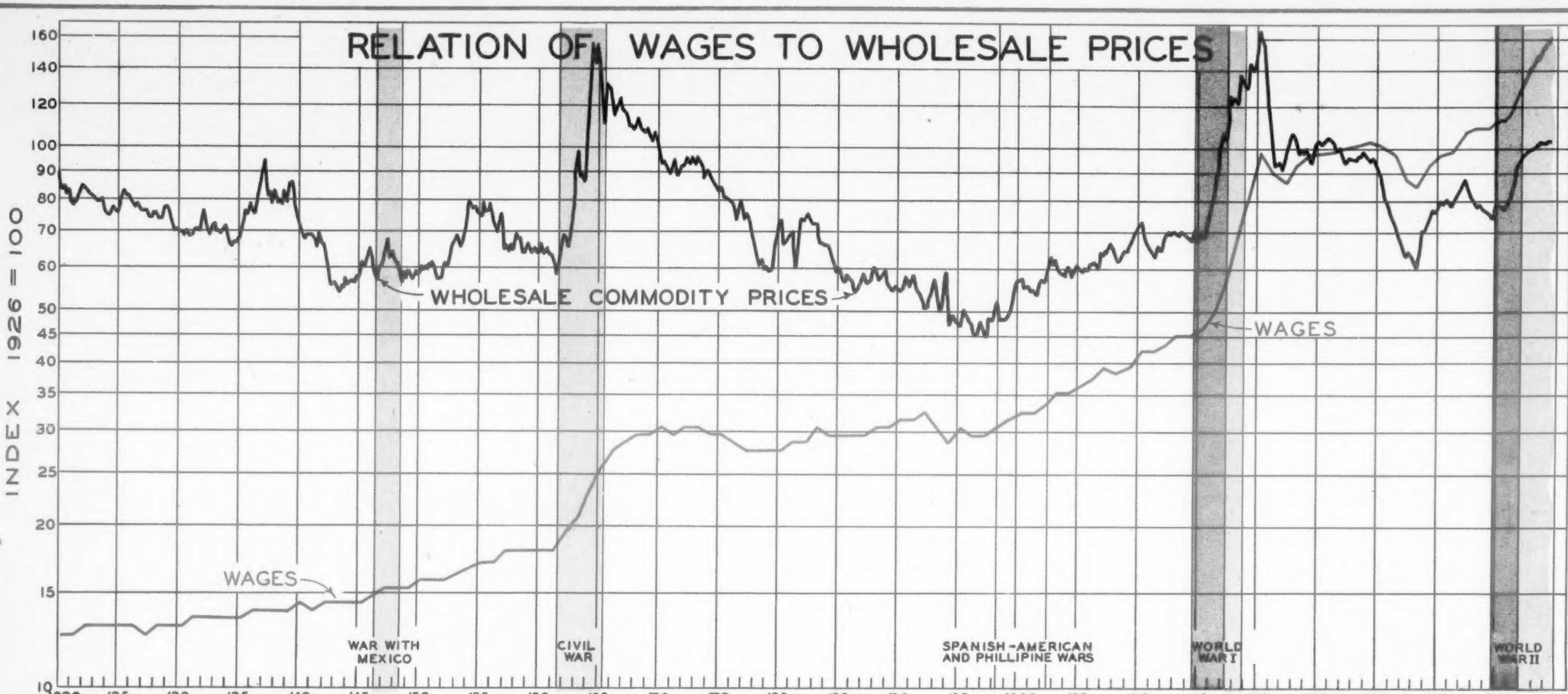


CARL SNYDER, in his unusual book Capitalism The Creator, stated: "There is a widespread belief, not only among workers, but also among many others, that the average rate of wages is somehow the result of 'custom,' or 'bargaining power,' or similar factors: always with a nod to the 'cost of living,' and the like. Therefore, that a higher level of wages could be brought about by laws, through setting a higher customary standard, or by trade unions, through increasing the 'bargaining power' of labor!"

The average wage rate in the country is due entirely to the average productivity per worker. In a country where this productivity is increasing, wages will increase. In a country where productivity per worker is stable, wages will move sideways and in a country where productivity per worker is dropping, wages must necessarily drop. When we are talking of wages on this basis, we are talking about "real wages", in other words, about the average purchasing power of the average employee.

The average product per worker is determined in the long run by the capital investment per worker which makes possible the use of new machinery, new processes and new methods of production. The reason that wages increased in the United States as rapidly as they have during the past 100 years is that inventive genius in the past in the United States found a fertile field not greatly hampered by restrictions,

(continued from preceding page)
either on the part of government or on the part of labor unions. More and more capital has been invested in equipment and methods which have increased the output per worker per hour.

If wages were to increase generally faster than the productivity per worker per hour, the inevitable result would be that the higher unit cost per hour of manufacture would cause a comparable rise in the price at which commodities would be sold, resulting in an increase in the cost of living by a sufficient amount to nullify the increase in money wages.

It is possible for a short time for certain groups to benefit at the expense of the rest of society by compelling a wage rate higher than is justified.

On page 170 in his book, Carl. Snyder says: "If the prevalent illusions regarding wages had any factual basis, if the average wage were even in slight degree a matter of law, volition or custom, we should not find the high correlation that exists between the wages paid and the determining factors: the amount of capital employed in industry and the degree of technical development. This correlation is proof that these factors determine the average wage so closely that, given certain details as to the wealth and income per capita of a country, and the amount of machinery employed in industry, one could easily estimate the average wages paid. And this would probably hold for any country, at any stage of its industrial development."

Those who believe that real wages can be increased by either government edict or by organized pressure from labor unions are under the mistaken impression that a large part of the national income goes to profits and that a relatively few persons absorb a large amount which might otherwise go to the "workers."

The net realized profits of industry, however, do not amount to more than 5% of the total national income and if this 5% were completely eliminated, the amount which could be added to wages might increase the earnings of wage earners by not more than 8 or 10%. To eliminate all profit, however, would immediately prevent the investment in labor-saving machinery which has been responsible for the increased productivity of labor and, in the last analysis, for the increase on our index of wages from 13 to 164. Had all profits been distributed in wages, no progress would have been possible and labor would still be as poorly paid as it is in countries such as China or India, where relatively little capital is employed in production.

It seems certain that through government and labor union pressure, money wages will continue to rise in the postwar period. Since they have already risen by a far larger percentage than the recent increase in productivity per hour, this will eventually result in further increases in prices and in the cost of living, reducing real wages to the point they would have reached had no pressure been exerted.

THE BUSINESS OUTLOOK

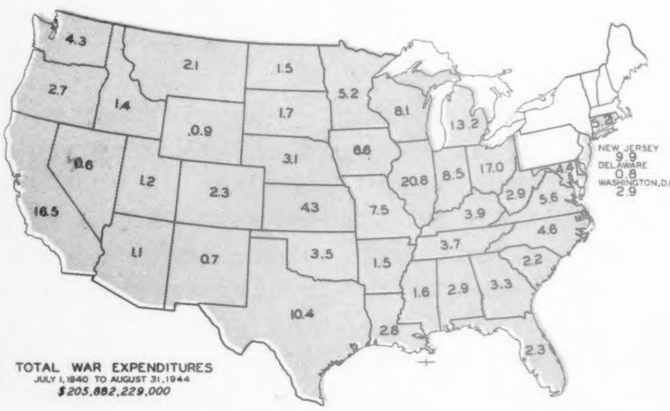
(continued from page 255)
unemployment during the reconversion period will be moderate not exceeding at any time the amount prior to the beginning of the war.

WAR EXPENDITURES

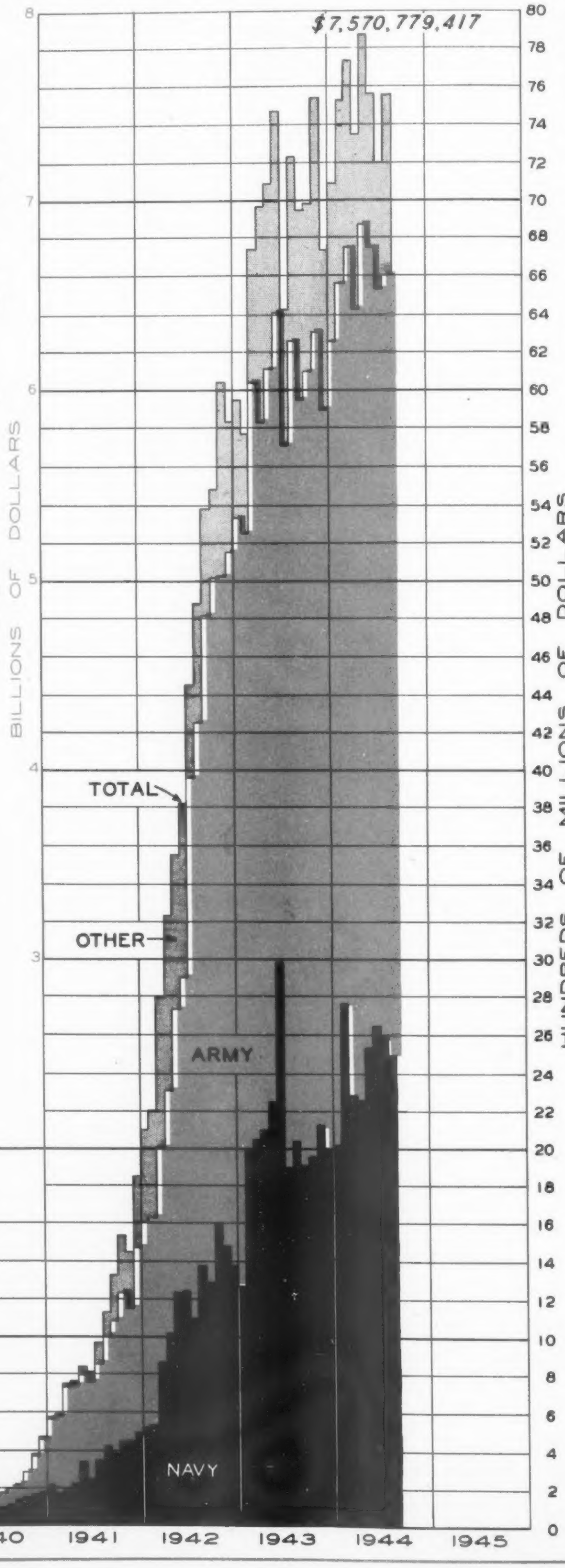
DURING August war expenditures totaled $7,570,779,417. This is slightly below the peak of last May when expenditures reached approximately $7,-879,000,000. We are sure that the May figure will be the all-time high, as from now on war expenditures will drop gradually at first and then more rapidly. Our total war expenditures from July 1, 1940, to August 31, 1944, were $205,882,229,000.

Because of the tremendous war expenditures, we are getting to the point where an expenditure of one or two billion dollars does not seem very important, and this frame of mind leads to further inflation. The size of our war expenditures is more alarming from the standpoint of national solvency as illustrated on the map below.

The National Industrial Conference Board estimated the total wealth of all States in the United States as of 1937. The amounts expressed in billions are shown on the map. The shaded States aggregate a total approximately equivalent to the war expenditures from July 1940 through August 31, 1944. By total wealth in 1937 was meant the value of all real and personal property of all sorts.



TOTAL WAR EXPENDITURES
JULY 1, 1940 TO AUGUST 31, 1944
$205,882,229,000



UNEMPLOYMENT IN THE RECONVERSION PERIOD

THE nearing of the end of the war in Europe is starting to present problems to the owners of real estate in war industry cities. Many of these cities experienced tremendous influxes of industrial workers during the past three years. While some new industrial space was built in all of these cities, in many cases employment per square foot of industrial space has increased markedly due to overtime and to two and three shift operations. During the next six months many manufacturers who have been operating on a practically continuous basis will cut back to a forty hour week shift operation as a minimum increasing again the number of square feet of industrial space to employed in most war industry cities, with little possibility that all of them can be absorbed within a short period by civilian occupations. Estimates of the amount of unemployment during the reconversion period vary from a minimum of probably 5 million to a maximum of more than 10 million.

It seems to us that the maximum unemployment during this reconversion period will probably not exceed 7 million, and that many of these will be reabsorbed during the latter part of 1945. The picture, however, will be spotty and in some cities actual shortages of employable persons will continue, while in others tremendous over-supplies will exist.

In order to give some idea of the localized problem in the principal cities of the United States, the charts on employment in manufacturing industry in 93 metropolitan areas, published originally in March 1944, have been brought up-to-date- and are reprinted on pages 260 to 263 in this report.

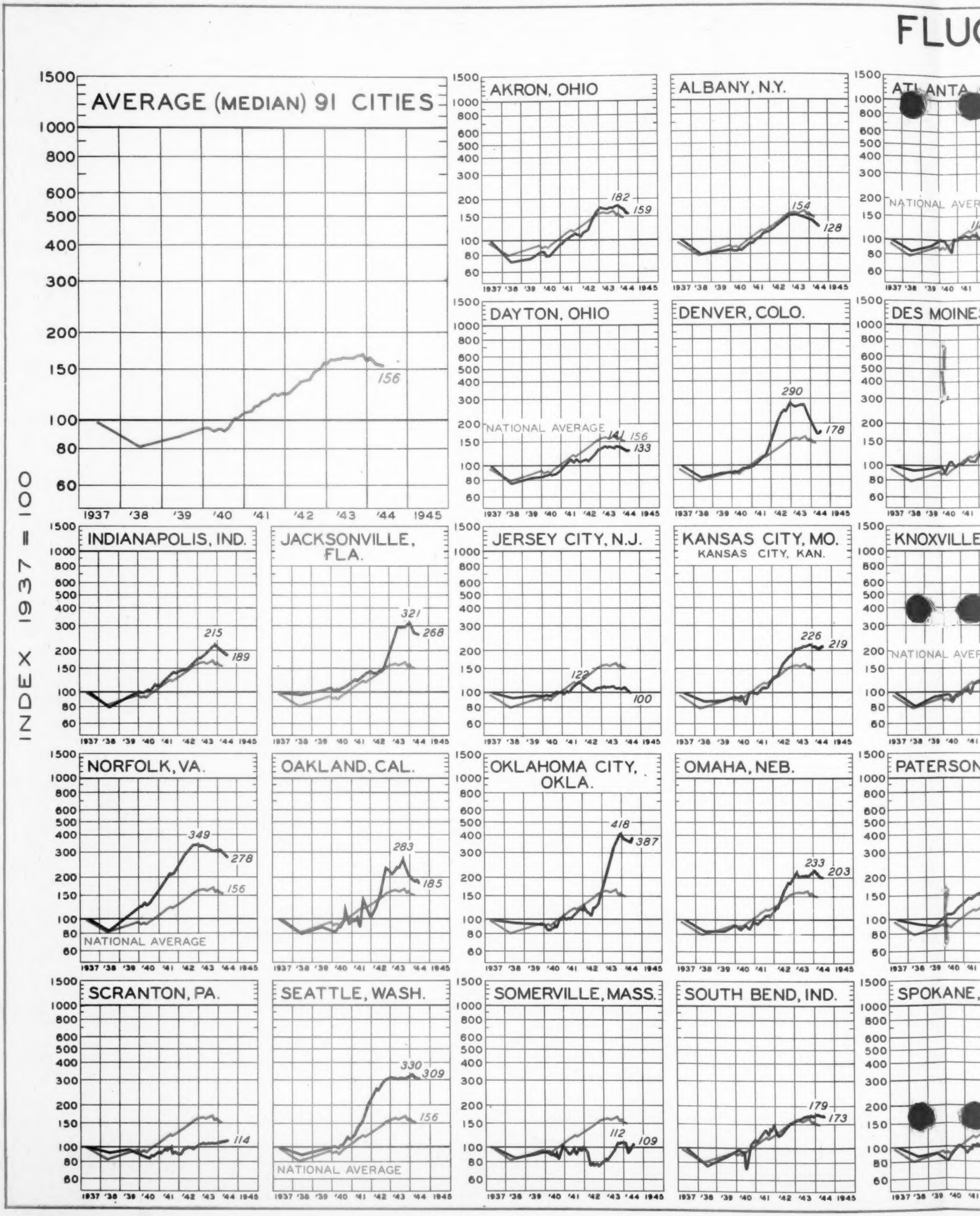
The red line on each of these charts shows the average (median) of 91 cities. The blue on each chart shows the fluctuation for each specific city.

The peak of employment in the United States was reached in December, 1943 when the national index showed employment 73% above the 1937 average. Employment has now declined until it is 56% above 1937.

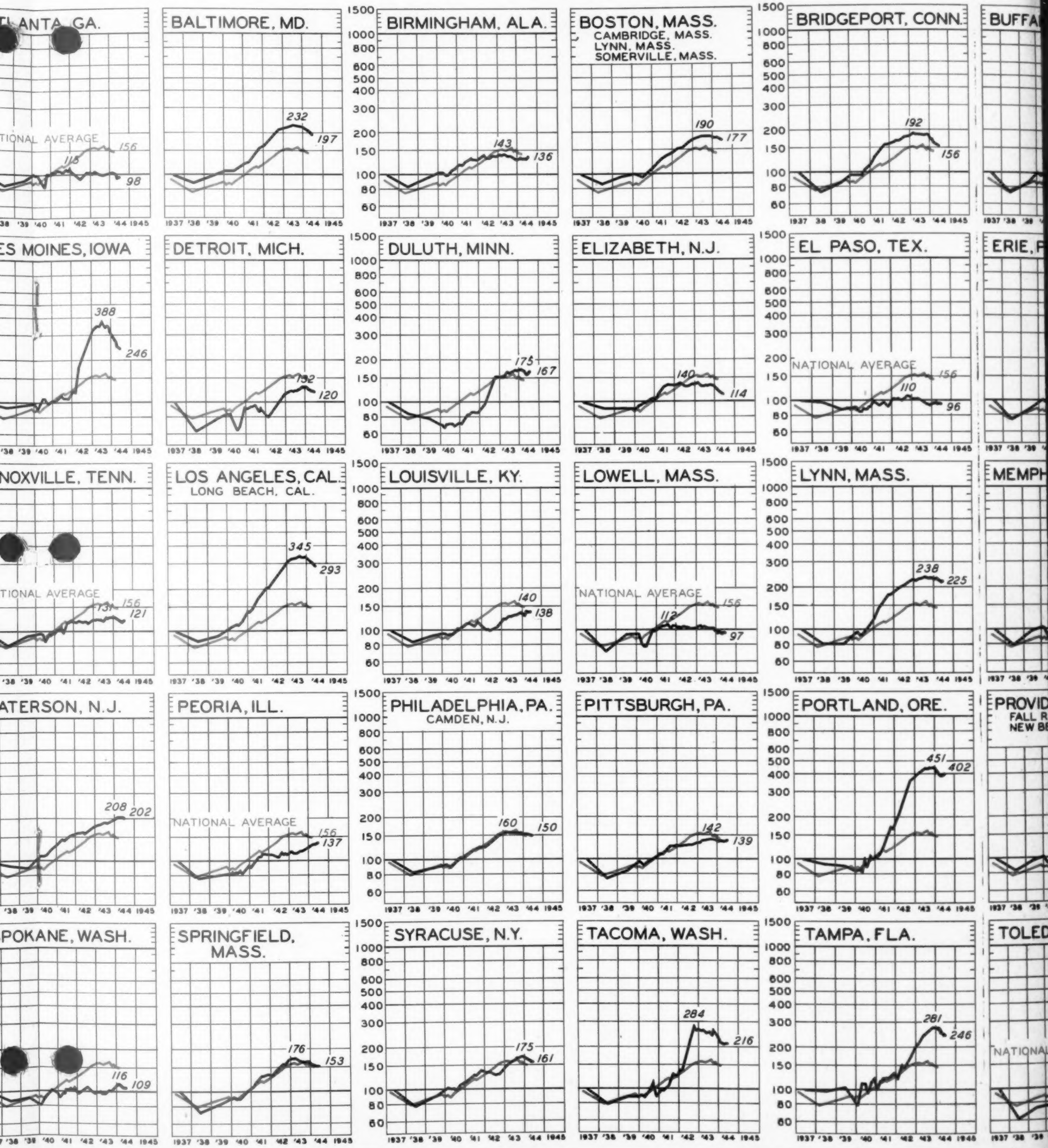
Individual cities show great variation from this national picture. The poorest showing of any city is made by Reading, Pennsylvania, where employment has consistantly been below the 1937 average with the last figure only 64% of the 1937 level. On the other hand, Wichita, Kansas has a greater level of 864% of the 1937 level, which, however, is a slight drop from the 916% at the peak. Communities like Denver, Des Moines, Salt Lake City, San Diego, and Tulsa, Oklahoma have all shown sizeable drops from the peak. Some of these cities which so far have shown relatively little drop will expect major drops as war production tapers off. Wichita, Kansas for instance, will end the war period with a population much greater than the prewar population, but it cannot expect to hold all of the inmigrants it's defense plants have attracted.

The cities which have lost employment during the post-war period will probably regain a large part of their loss, but in many cases they will end the war period with a slightly smaller population than they had when the war started.

From the post-war situation the cities in which the increase in activity has most nearly paralled the national increase will probably have the least painful readjustment to go through.

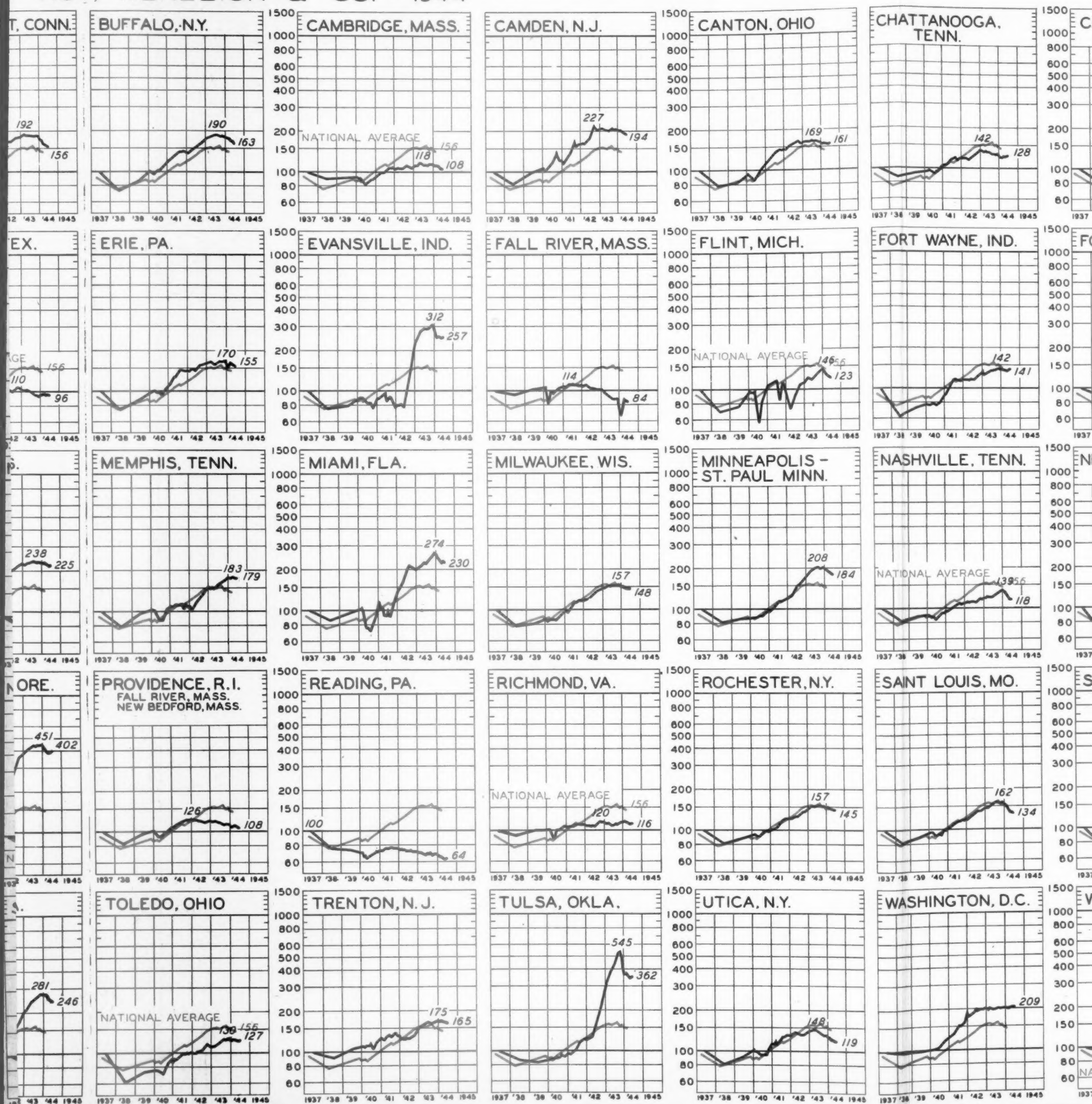

FLUC
INDEX 1937 = 100
AVERAGE (MEDIAN) 91 CITIES
156
AKRON, OHIO
182
159
ALBANY, N.Y.
154
128
ATLANTA
NATIONAL AVER
DAYTON, OHIO
NATIONAL AVERAGE
141
156
133
DENVER, COLO.
290
178
DES MOINE
INDIANAPOLIS, IND.
215
189
JACKSONVILLE, FLA.
321
268
JERSEY CITY, N.J.
122
100
KANSAS CITY, MO.
KANSAS CITY, KAN.
226
219
KNOXVILLE
NATIONAL AVER
NORFOLK, VA.
349
278
156
NATIONAL AVERAGE
OAKLAND, CAL.
283
185
OKLAHOMA CITY, OKLA.
418
387
OMAHA, NEB.
233
203
PATERSON
SCRANTON, PA.
114
SEATTLE, WASH.
330
309
156
NATIONAL AVERAGE
SOMERVILLE, MASS.
112
109
SOUTH BEND, IND.
179
173
SPOKANE,
1937 '38 '39 '40 '41 '42 '43 '44 1945

FLUCTUATIONS OF EMPLOYMENT IN MANUFACT

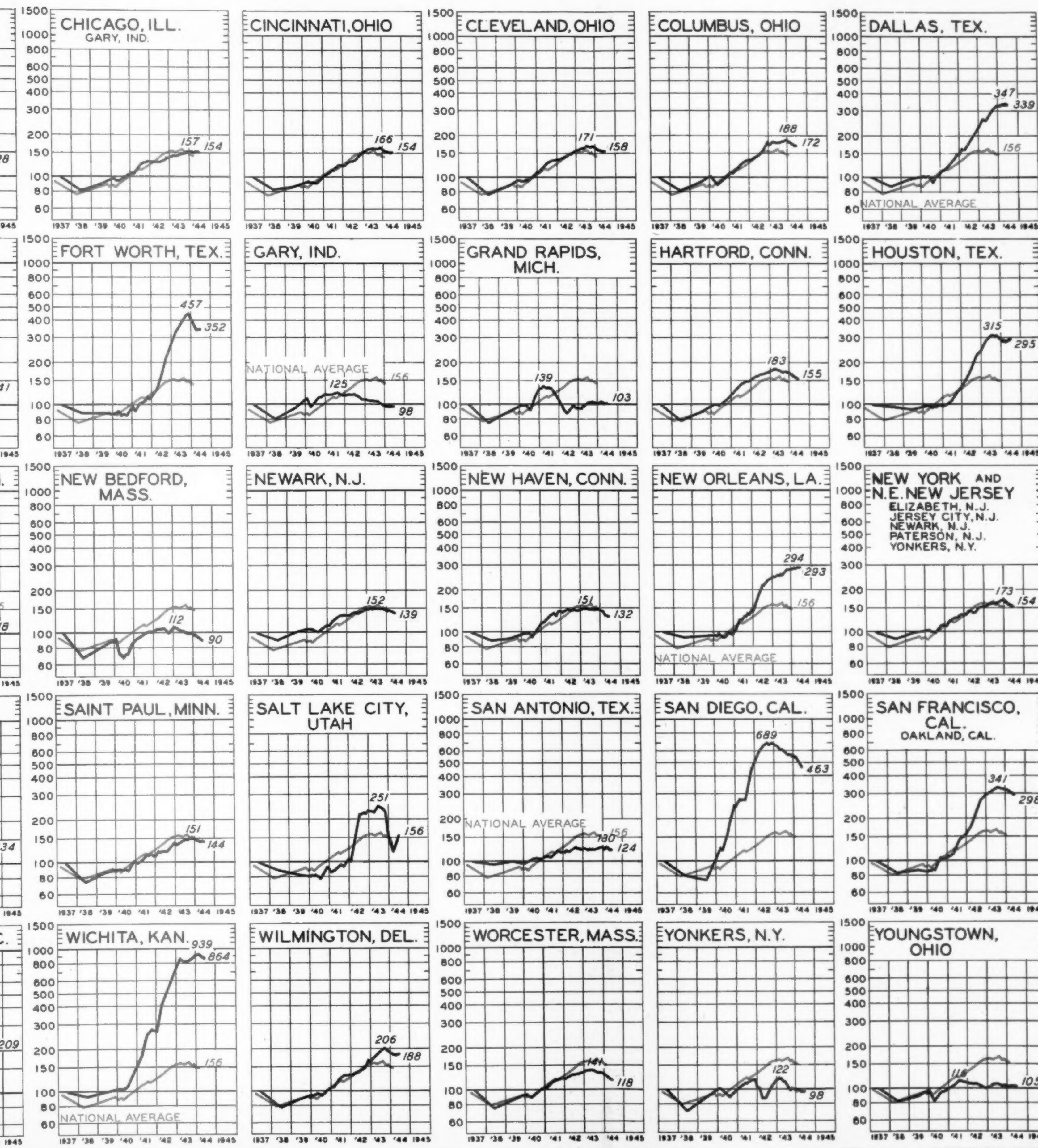


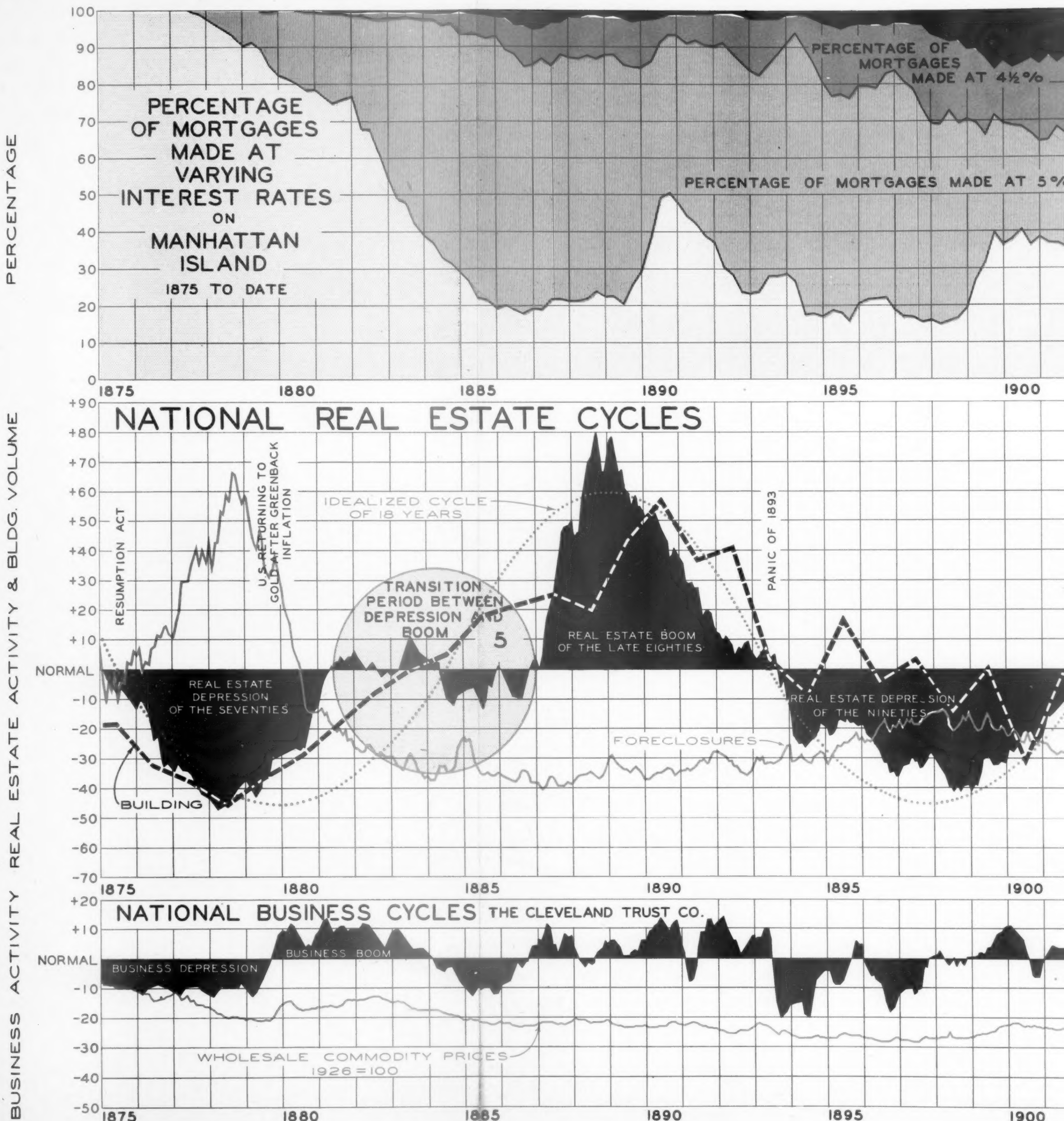
NUFACTURING INDUSTRIES IN 93 METROPOLITAN AR

- ROY WENZLICK & CO. - 1944

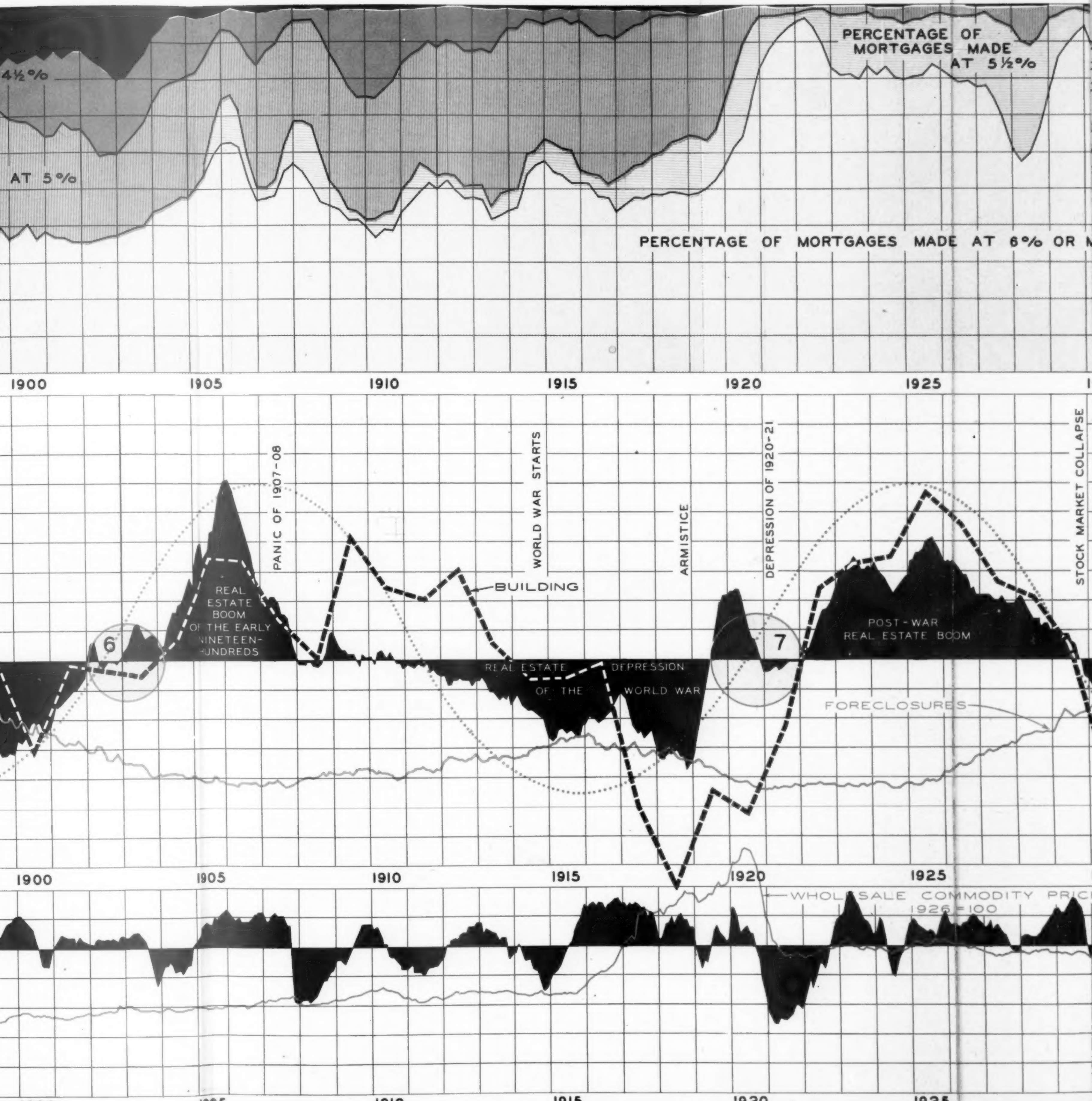


AREAS


CHICAGO, ILL.
GARY, IND.
157
154
CINCINNATI, OHIO
166
154
CLEVELAND, OHIO
171
158
COLUMBUS, OHIO
188
172
DALLAS, TEX.
347
339
156
NATIONAL AVERAGE
FORT WORTH, TEX.
457
352
GARY, IND.
NATIONAL AVERAGE
125
156
98
GRAND RAPIDS, MICH.
139
103
HARTFORD, CONN.
183
155
HOUSTON, TEX.
315
295
NEW BEDFORD, MASS.
112
90
NEWARK, N.J.
152
139
NEW HAVEN, CONN.
151
132
NEW ORLEANS, LA.
294
293
156
NATIONAL AVERAGE
NEW YORK AND N.E. NEW JERSEY
ELIZABETH, N.J.
JERSEY CITY, N.J.
NEWARK, N.J.
PATERSON, N.J.
YONKERS, N.Y.
173
154
SAINT PAUL, MINN.
151
144
SALT LAKE CITY, UTAH
251
156
SAN ANTONIO, TEX.
NATIONAL AVERAGE
156
130
124
SAN DIEGO, CAL.
689
463
SAN FRANCISCO, CAL.
OAKLAND, CAL.
341
298
WICHITA, KAN.
939
864
156
NATIONAL AVERAGE
WILMINGTON, DEL.
206
188
WORCESTER, MASS.
141
118
YONKERS, N.Y.
122
98
YOUNGSTOWN, OHIO
115
105
1500
1000
800
600
500
400
300
200
150
100
80
60
1937 '38 '39 '40 '41 '42 '43 '44 1945



PERCENTAGE
PERCENTAGE OF MORTGAGES MADE AT VARYING INTEREST RATES ON MANHATTAN ISLAND
1875 TO DATE
PERCENTAGE OF MORTGAGES MADE AT 4½%
PERCENTAGE OF MORTGAGES MADE AT 5%
NATIONAL REAL ESTATE CYCLES
REAL ESTATE ACTIVITY & BLDG. VOLUME
RESUMPTION ACT
U.S. RETURNING TO GOLD AFTER GREENBACK INFLATION
IDEALIZED CYCLE OF 18 YEARS
PANIC OF 1893
TRANSITION PERIOD BETWEEN DEPRESSION AND BOOM
5
REAL ESTATE BOOM OF THE LATE EIGHTIES
REAL ESTATE DEPRESSION OF THE SEVENTIES
REAL ESTATE DEPRESSION OF THE NINETIES
FORECLOSURES
BUILDING
NORMAL
NATIONAL BUSINESS CYCLES THE CLEVELAND TRUST CO.
BUSINESS ACTIVITY
BUSINESS BOOM
BUSINESS DEPRESSION
WHOLESALE COMMODITY PRICES 1926=100
1875
1880
1885
1890
1895
1900


4½%
AT 5%
PERCENTAGE OF
MORTGAGES MADE
AT 5½%
PERCENTAGE OF MORTGAGES MADE AT 6% OR
1900
1905
1910
1915
1920
1925
PANIC OF 1907-08
WORLD WAR STARTS
ARMISTICE
DEPRESSION OF 1920-21
STOCK MARKET COLLAPSE
REAL ESTATE BOOM OF THE EARLY NINETEEN-HUNDREDS
BUILDING
6
7
REAL ESTATE DEPRESSION OF THE WORLD WAR
POST-WAR REAL ESTATE BOOM
FORECLOSURES
1900
1905
1910
1915
1920
1925
WHOLESALE COMMODITY PRICES
1926=100
1900
1905
1910
1915
1920
1925
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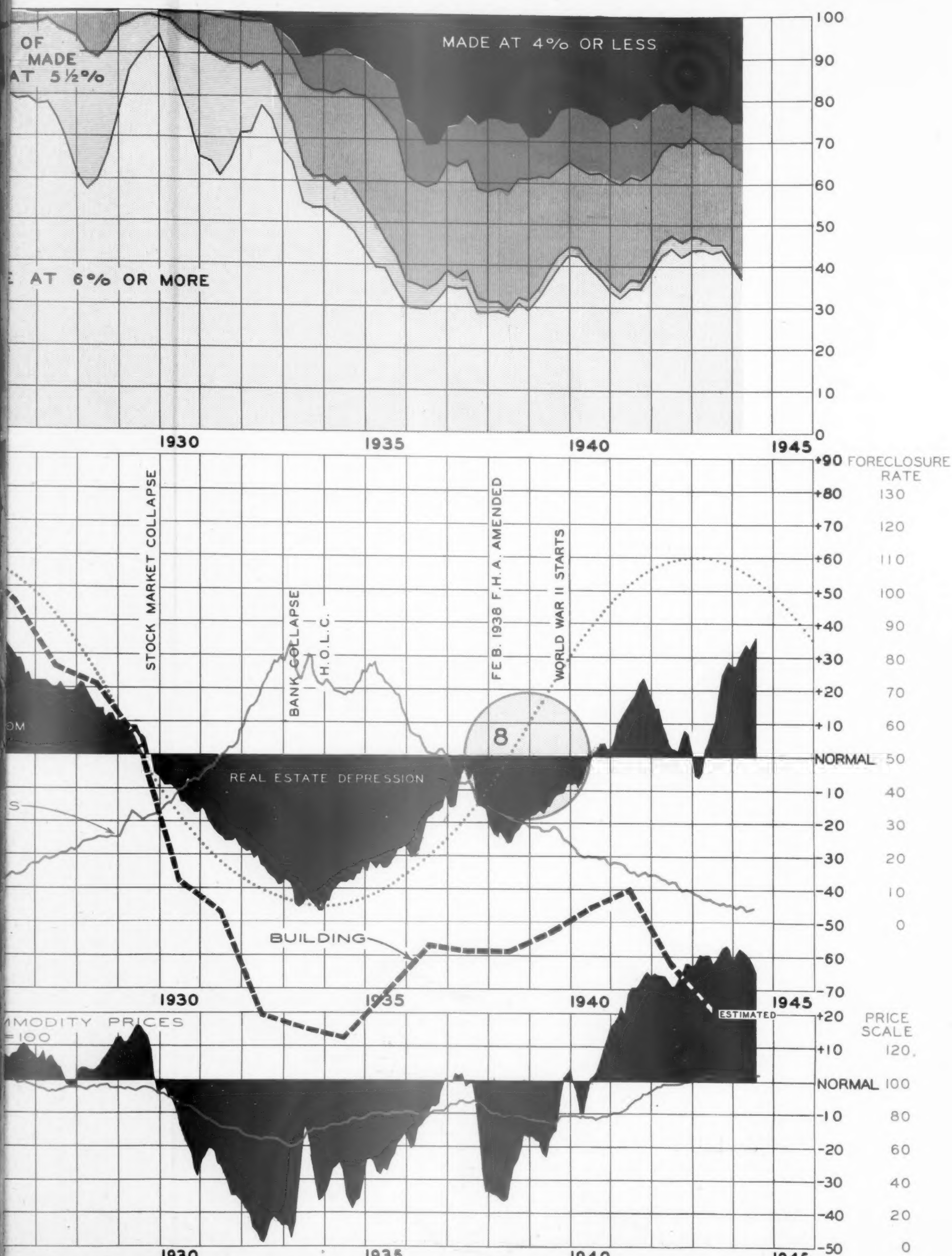
OF
MADE
AT 5½%
MADE AT 4% OR LESS
AT 6% OR MORE
100
90
80
70
60
50
40
30
20
10
0
1930
1935
1940
1945
STOCK MARKET COLLAPSE
BANK COLLAPSE
H.O.L.C.
FEB. 1938 F.H.A. AMENDED
WORLD WAR II STARTS
REAL ESTATE DEPRESSION
8
BUILDING
ESTIMATED
NORMAL
+90
+80
+70
+60
+50
+40
+30
+20
+10
-10
-20
-30
-40
-50
-60
-70
FORECLOSURE RATE
130
120
110
100
90
80
70
60
50
40
30
20
10
0
MMODITY PRICES
=100
PRICE SCALE
120
NORMAL
100
80
60
40
20
0

MORTGAGE INTEREST RATES

THE GI Bill makes provisions for veterans to secure loans at 4% interest, part of which will be guaranteed by the Federal government. In our opinion this will have a strong tendency in the early postwar period to bring the standard rate on small home mortgages toward a 4% figure. Other factors which will be operating at that time, however, would be inclined to cause mortgage interest rates to rise rather than to fall further. There will undoubtedly be an increasing demand for money as we get through the first throes of the reconversion period.

The large chart on pages 264 to 266 in this report shows mortgage interest rates on Manhattan Island from 1875 through the first part of 1944, in contrast with national real estate cycles, general business conditions and building volume. The panel at the top shows the percentage of mortgages made at each given rate of interest. The blue area at the top of the chart shows the percentage of mortgages made at 4% or less, and it will be noticed that this percentage increased during 1943 and the first part of 1944. The bottom area on the chart shows mortgages made at 6% or more, and the trend since the last part of 1942 has been generally downward.

We believe that it is quite significant for the future that mortgage interest rates rose sharply in 1919, 1920 and 1921 after the conclusion of the last war. They remained high during the entire boom of the twenties, as can be seen from this chart. In the early part of 1922 more than 95% of all mortgages made in New York City were made at 6% or more. This was quite a change from the war period during which less than 50% had been made at 6% or more. It is true that mortgage interest rates now are lower than they were in the First World War period and it is not anticipated that they will rise to the heights of the last boom.

Some caution should be exercised in interpreting the Manhattan figures as being typical of the United States for four reasons:

1. Mortgages on Manhattan real estate, as a rule, are on multi-storied buildings with values generally in hundreds of thousands or millions of dollars. Mortgage interest rates on this type of property will not necessarily be similar to mortgage interest rates on smaller residential units, as most of these elements which contribute to the gross rate are different. These elements are the loading for risk, the cost of keeping money invested, the penalty for lack of liquidity, and pure interest.

2. A great many of the larger properties on Manhattan Island were taken over during the depression by mortgage institutions, and these institutions have tried to divest themselves of real estate ownership. In many cases properties have been sold by these unwilling owners on a purchase money mortgage basis sufficiently attractive to induce sales to reluctant buyers.

3. Greater New York has lost population heavily during the war period, the census estimates showing a loss in civilian population of more than 800,000 people from April 1940 through November 1943.

4. Since Manhattan is the money center of the United States, it would generally follow that mortgage interest rates there would be lower than they would be on properties scattered throughout the United States.

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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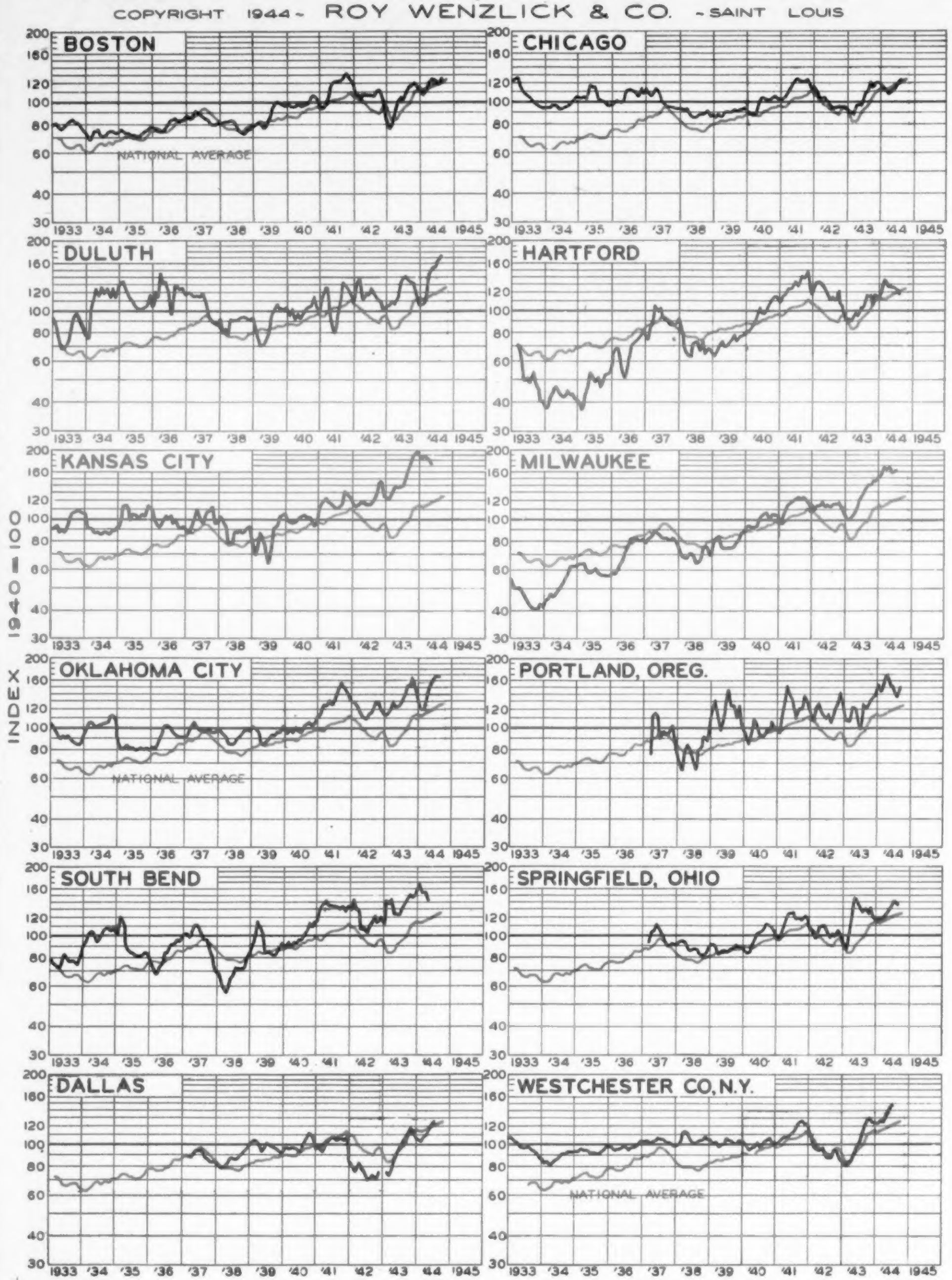

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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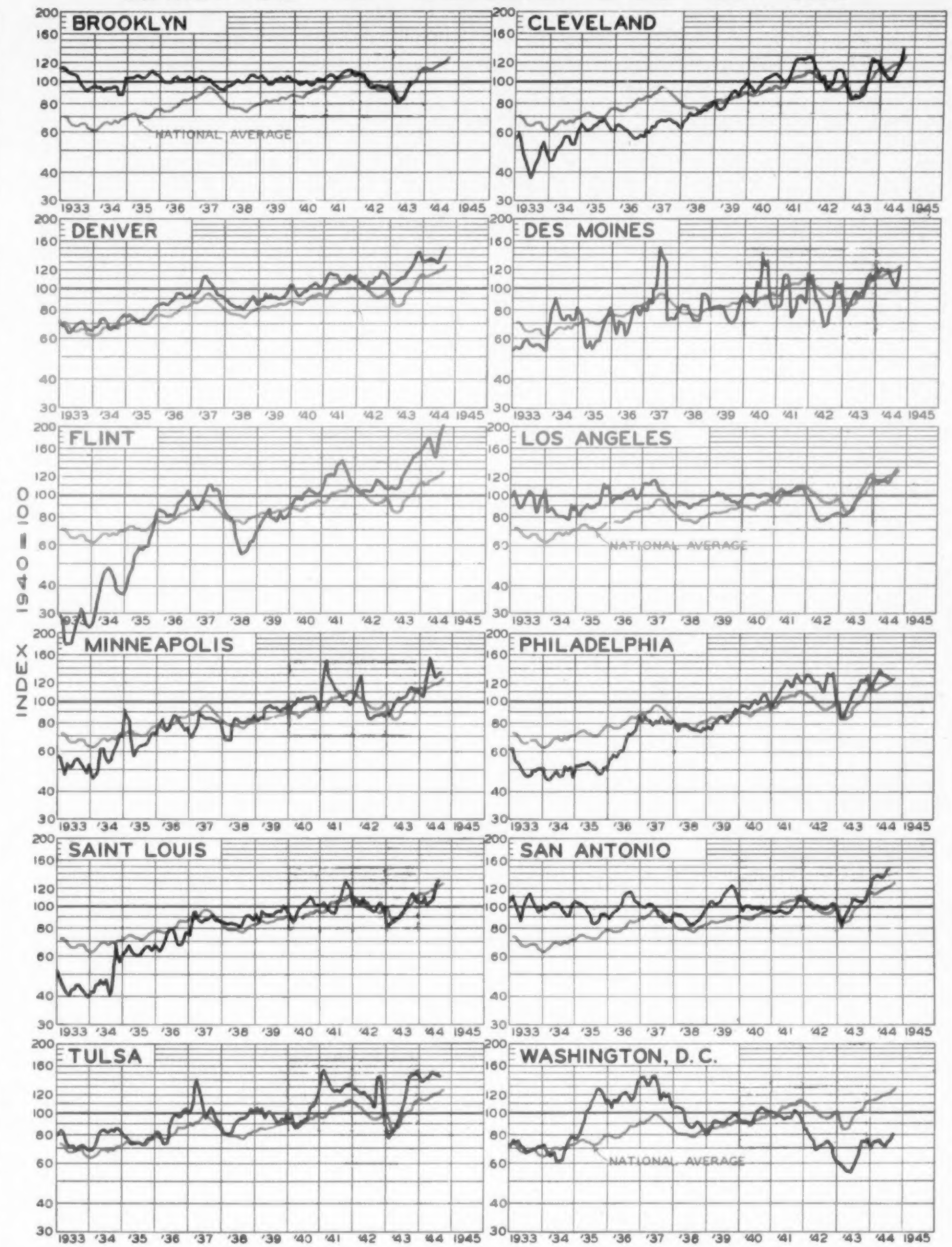
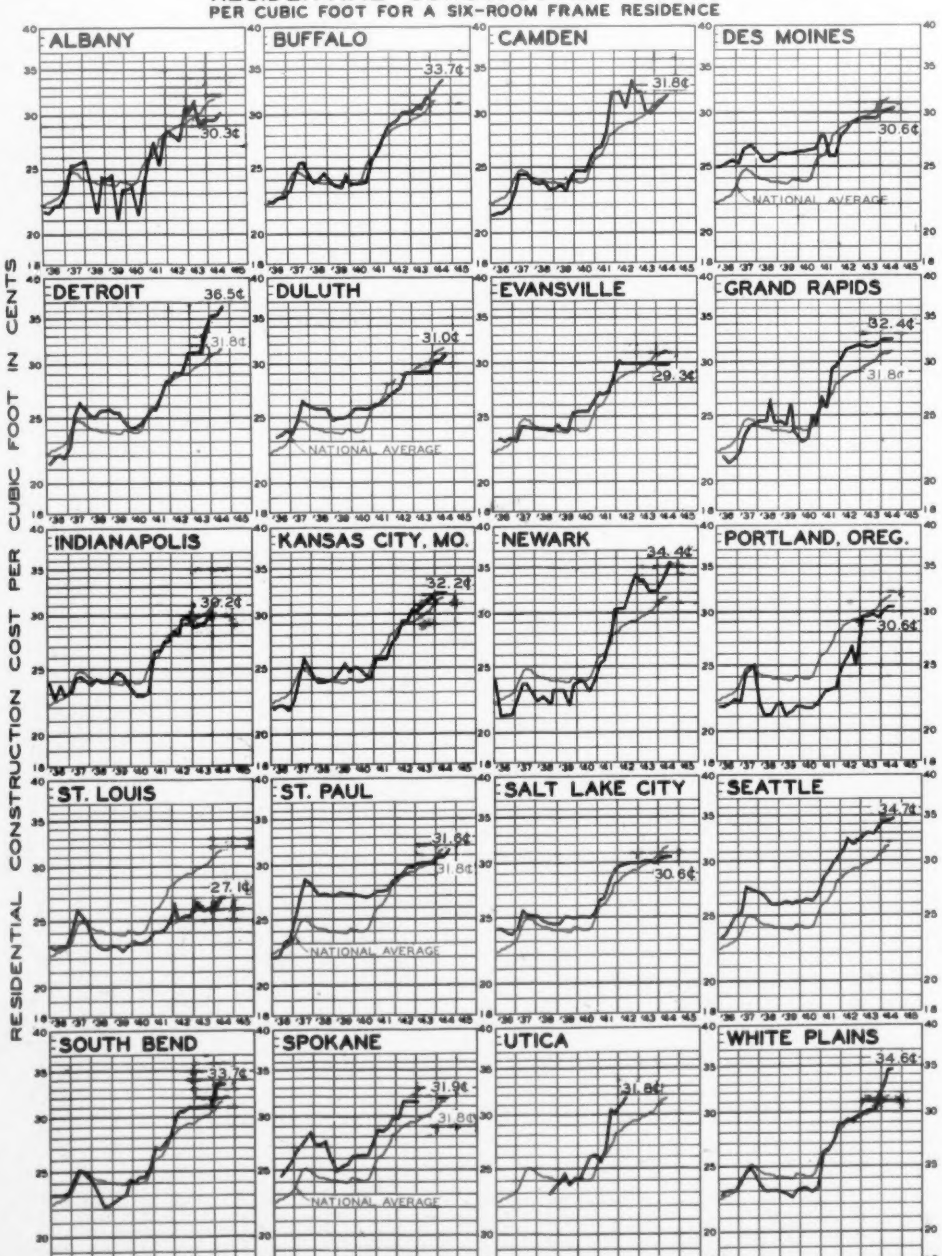


RESIDENTIAL CONSTRUCTION COSTS
PER CUBIC FOOT FOR A SIX-ROOM FRAME RESIDENCE



RESIDENTIAL CONSTRUCTION COSTS
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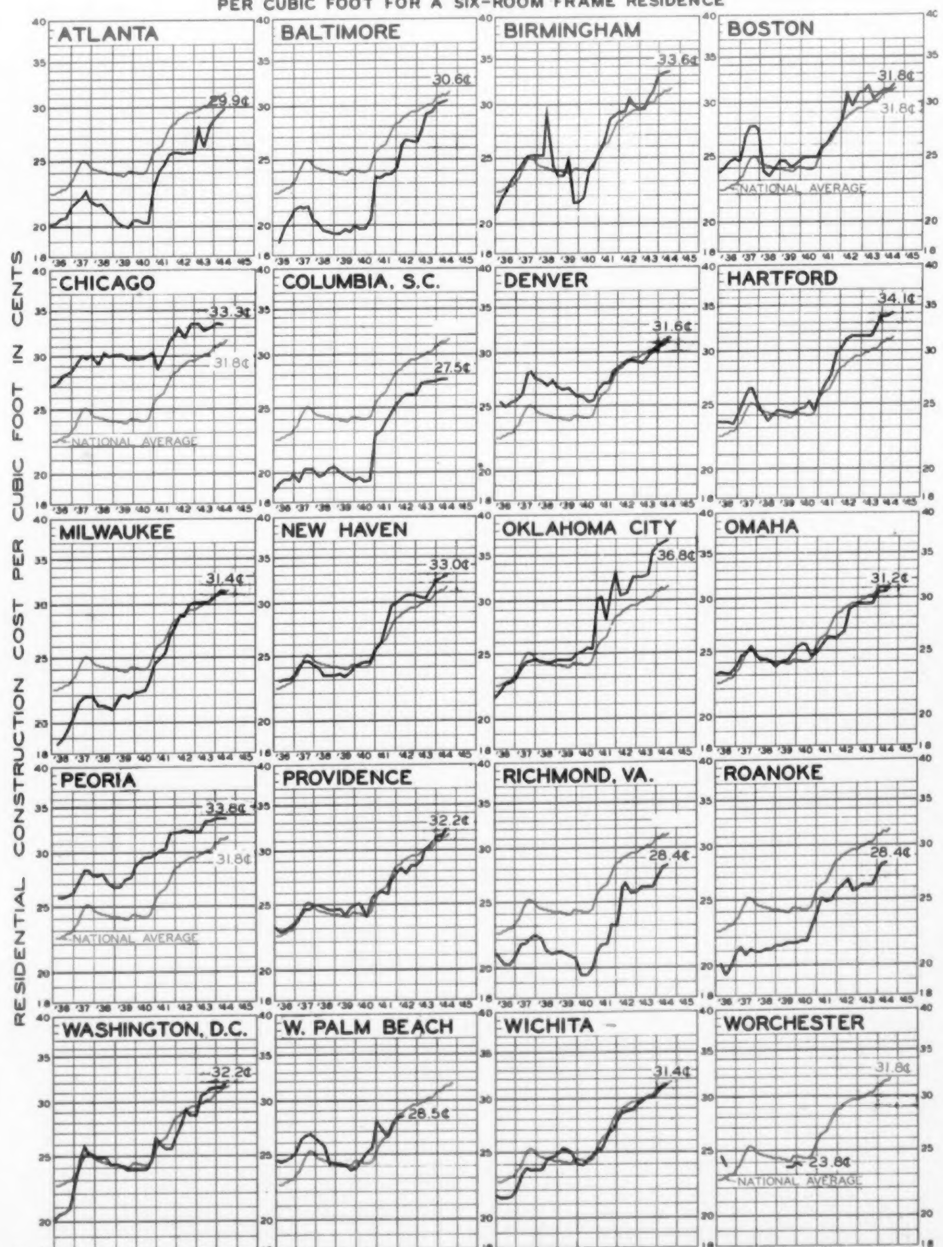
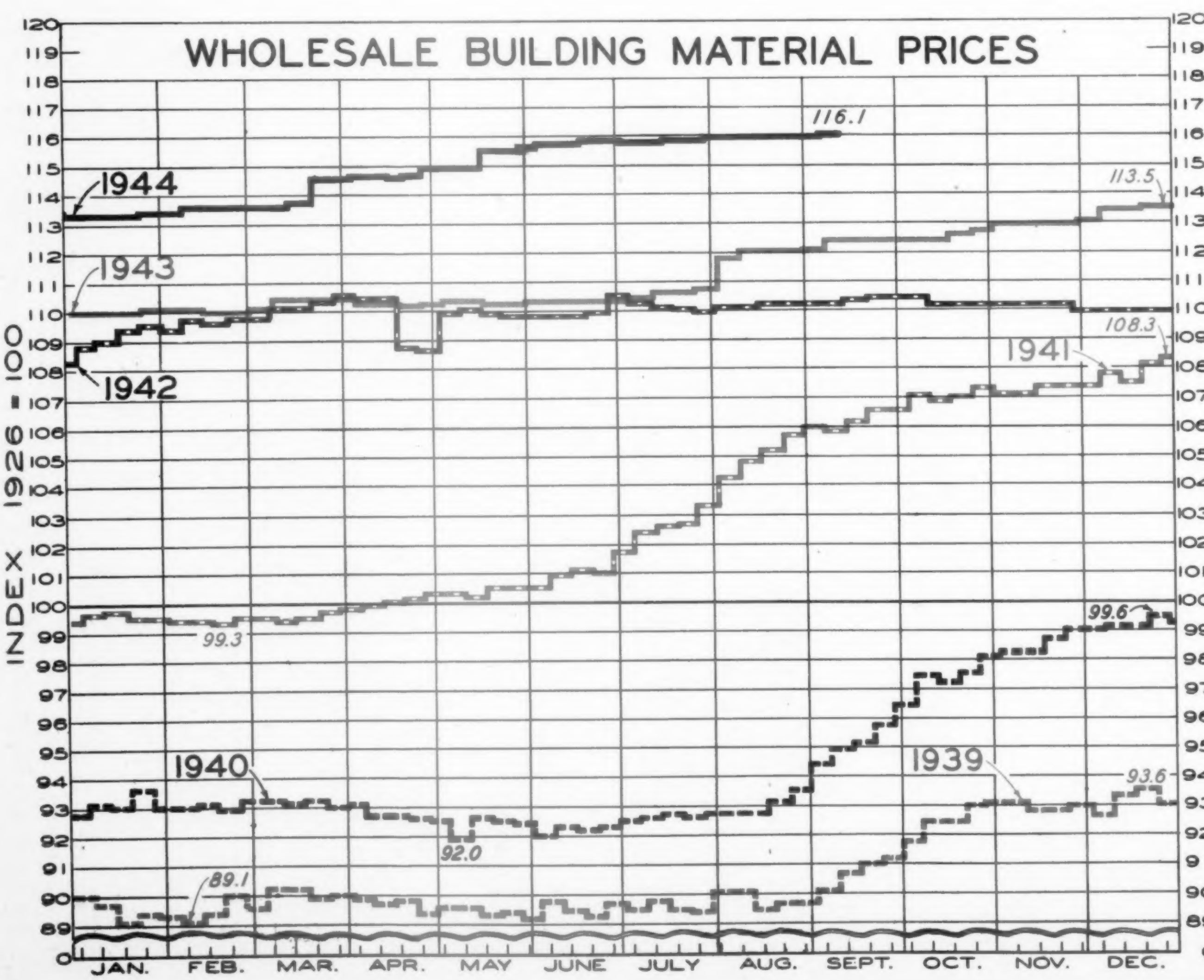


DWELLING UNITS CONSTRUCTED IN 48 STATES

THE number of new family accommodations built in all nonfarm communities of the 48 states and the District of Columbia is shown in the table below. Cumulative totals and twelve month moving totals are shown in blue for 1942 and 1944 and in red for 1941 and 1943.

THOUSANDS OF UNITS

	MONTHLY				CUMULATIVE				12 MONTH MOVING TOTAL			
	1941	1942	1943	1944	1941	1942	1943	1944	1941	1942	1943	1944
JANUARY	41.2	34.5	45.0	17.5	41.2	34.5	45.0	17.5	617.7	708.5	507.1	323.4
FEBRUARY	43.7	51.3	40.1	14.4	84.9	85.8	85.1	31.9	624.5	716.1	495.9	297.7
MARCH	60.2	52.7	33.1	17.9	145.1	138.5	118.2•	49.8	638.7	708.6	476.3	282.5
APRIL	75.2	59.7	26.7	14.0	220.3	198.2	144.9	63.8	651.0	693.1	443.3	269.8
MAY	70.7	60.6	33.6	15.8	291.0	258.8	178.5	79.6	664.7	683.0	416.3	252.0
JUNE	77.2	46.3	21.7	17.5	368.2	305.1	200.2	97.1	697.9	652.1	391.7	247.8
JULY	74.6	26.7	24.2	12.6	442.8	331.8	224.4	109.7	715.0	604.2	389.2	236.2
AUGUST	69.8	27.5	27.9	11.9	512.6	359.3	252.3	121.6	729.1	561.9	389.6	220.2
SEPTEMBER	67.0	40.4	24.2		579.6	399.7	276.5		737.7	535.3	373.4	
OCTOBER	56.2	32.2	28.6		635.8	431.9	305.1		727.7	511.3	369.8	
NOVEMBER	46.6	30.4	25.8		682.4	462.3	330.9		729.4	495.1	365.2	
DECEMBER	32.8	34.3	20.0		715.2	496.6	350.9		715.2	496.6	350.9	



THE REAL ESTATE ANALYSTS

VOLUME XIII

SEPTEMBER
1944

As I see

UNORTHODOX POST-WAR PLANS

THE National Association of Real Estate Boards has just published POST-WAR CITIES - A Proposal Advanced for Discussion. This booklet presents the difficult problems of obsolescence and blight and frankly states that these problems cannot be solved by any orthodox method. It then discusses various methods by which blight might be overcome. The principal suggestions for government cooperation are:

A. Provide for definite relief from the heavy tax burden on real estate and building enterprise now constituting a "shelter sales tax" equivalent to an income tax of 20% a year.

B. Provide incentive for demolition of old buildings.

C. Create planning commissions with broad original powers to establish land uses and city patterns extending over the entire metropolitan community.

D. Create local development authorities with power to assemble blighted and slum lands and after they have been replanned dispose of the cleared land to private enterprise for rebuilding.

E. Provide for a Federal agency which will consolidate present Federal functions having to do with home ownership, mortgage financing and community development.

F. Provide for Federal interest-free loans over long periods to be used for buying the land in our communities to be redeveloped.

G. Provide for the housing of the needy and take care of housing emergencies arising from time to time that local government cannot undertake alone.

In addition, it suggests "the Mortgage Insurance Administration (now the FHA) could continue the present functions of FHA, but should broaden its mortgage insurance program with such activities as government conversions and modernization of sound buildings. It could provide for the creation by a mortgagor of an equity in his insurance premiums to take care of the rainy day. It should adjust mortgage rates through mortgage insurance on a strictly economic basis in accordance with the over-supply of capital. It should make a consistent effort to secure the lowest possible rate for the housing of the lowest income groups and the extension of housing mortgages to 33 years."

It also suggests that "home ownership could be greatly encouraged if home

owners were allowed depreciation on their homes when reporting deductible income to the Bureau of Internal Revenue."

My sympathies are with the owners of real estate. I believe that rent control, freezing rents as it did at a subnormal level, has resulted in the owners of real estate contributing more toward the war effort than was expected of any other noncombatant group. Residential rents on the average in the United States were frozen at a level 14.9% below the 18-year average of 1921 to 1938. This was the only item of the cost of living which was frozen below the 18-year average. Fuel and light is now 1.4% above the 18-year average. The miscellaneous items that go in the average budget are 19.7% above; food is 20.6% above; clothing is 24.4% above; house furnishings are 35.3% above. The cost of living as computed by the Bureau of Labor Statistics is 15.6% above this 18-year average.

I would agree with the National Association of Real Estate Boards that the problem of blight and obsolescence is without an "orthodox" solution, if an immediate answer to the problem is required. I am not sure, however, that the "unorthodox" suggestions put forth to date would be practical or advisable.

A. It is natural for every group to ask for a relief from heavy tax burdens and undoubtedly the owners of real estate, because of the tangible nature of the commodity they own, have been too heavily assessed from the tax angle. I doubt seriously, however, whether any large percentage of this tax burden can be shifted as every other group will resist any increase in their taxes. The fallacy, of course, in our thinking during the past few years has been that the government had funds which it could allocate to the rendering of services to the individual and the community. We should have realized that this is the reverse of the facts. The government cannot support the individual, but the individual must support the government, as it has no other source of income. The public should be educated to the fact that if they expect the government to render services to them, they must be prepared to pay with heavy tax bills. While it is not true in all cases, it is true in the greater percentage of cases that work done by the government is done at a higher unit cost than work done by private corporations.

B. The government has provided a powerful incentive for the demolition of old buildings in an assessment rate for tax purposes on obsolete properties which assumes a value which these properties do not possess. This incentive has been responsible for the tearing down of hundreds of thousands of buildings since 1932.

C. Undoubtedly city planning should be done on a metropolitan area basis rather than on a city basis, as the problems are all area problems not affected by artificial corporate limits.

D. The suggestion that local development authorities be created with power to assemble blighted and slum lands to be replanned and disposed of as cleared land to private enterprise for rebuilding is not practical. As pointed out in this booklet, the cost of this ground when assembled in this fashion, is in some cases as much as five times its value. This amounts to a subsidy to the present owners of this property as its actual value should not exceed the capitalized net income which could be derived from it if it were developed to its highest and best use.

Most people do not realize that the total dollar value of all residential real estate in a city is determined by the total amount in dollars which all of the families in that city can afford to pay for rent. Let us take for instance the City of Toledo. According to the United States Census of April 1940, the total contract, or estimated, monthly rent for the 82,207 dwelling units reporting there was $2,422,179. This amount of rent determined the value of all of the residential real estate in Toledo. Unless the rent paying ability of the citizens increased, the replacement of every obsolete house in Toledo with a new modern building would not have increased the total dollar value of residential property there. This must be qualified by the slight adjustment that would be necessary because of the lower upkeep in the initial period on the newer buildings. Even this qualification would make relatively little difference in the sum total for the city, as the slum dweller who could not afford to pay more than $10 a month before would still be able to pay only $10 a month for a new building, and this amount would be insufficient to provide for any amount of maintenance and repairs, meaning that the new buildings would rapidly deteriorate because of the lack of rent paying ability on the part of the tenants.

To assume that the total dollar value of all residential real estate in Toledo could be increased by replacing the obsolete buildings, it is necessary to assume that the people of Toledo could have afforded to pay more for rent than they were paying at that time.

At the present time, due to war production the people of Toledo could afford to pay more for rent than they could in April 1940 and had rents not been frozen, each person would attempt to secure for himself the best quarters he could at the amount he was able to pay. This would have stimulated new building and would have increased the values of the more habitable existing buildings as tenants bid against each other for the available supply. As the total amount which all of the families in Toledo were able to pay in rent increased, the value of all residential real estate there would have increased.

E. Let us look for a few minutes at the suggestion of increasing the loan term to 33 years. I believe that a 33-year monthly amortized loan on a well constructed residence would be safe, provided that construction costs remained at their present level or rose during the period of the loan. In all probability, however, this will not be the case. Construction costs will rise in the early post-war period but I believe that the time will be reached in the not too distant future when construction costs reach a peak from which they will then gradually decline. By that time prefabrication techniques and new materials will be hastening the drop in costs. It should never be forgotten that the values of all existing buildings will drop when it becomes possible to build new buildings at a lower cost. This is due to the fact that accrued depreciation must be deducted from replacement cost rather than from original cost. If a loan were made in 1946 for a 33-year period on an 80% basis, I think it is entirely probable that new techniques and materials by 1956 will have reduced the value of that building to the point where it will be worth less than the amount still owed on it. Whenever this condition arises foreclosures go up rapidly and the entire economy goes through many forced changes of ownership with their accompanying distress.

F. The plan to provide for "Federal interest-free loans over long periods" to be used for buying the lands in our communities to be redeveloped is not economically sound. There is no such thing as an interest-free loan. If

the government "loans" money for a long period without charging interest, it would merely be lending money which it had borrowed and on which it was paying interest itself. We will never arrive at the period in a democracy when the general public can be persuaded to buy government bonds that yield no interest and until the government can borrow money without interest, to lend it without interest is merely an effort to disguise a subsidy with inoffensive language. The difficulty, of course, in the United States is that the Federal government has been asked and has done many things which it should not have done, cloaked in such a fashion that the real nature of the subsidy was hidden.

The suggestion that the home owner be allowed to deduct depreciation on his home on his Federal income tax is not entirely new. It was mentioned in the August 1944 issue of HOUSE BEAUTIFUL by Fred Hartley, Jr., a Congressman, who wrote an article on equal rights for home owners. This article suggested that home owners be allowed to deduct for depreciation on their homes in their income tax returns. He has introduced a bill in Congress to "correct this mistake in the Federal Revenue Act."

In the September 4, 1944, issue of HEADLINES, published by the National Association of Real Estate Boards, the President of the Association in a signed editorial endorses Mr. Hartley's position objecting to the fact that the poor home owner cannot deduct for wear and tear on the house he lives in in determining the amount of his net income for income tax purposes. In this editorial he says: "Why shouldn't the home owner who lives in his house have the right to deduct for wear and tear on it when he reports his taxable income to Uncle Sam? Everyone else who has any kind of physical asset is given this privilege. If you own an oil well or a mine you are allowed to deduct for depletion. If you own a commercial or industrial building you are allowed to deduct for depreciation. If you live in your own house but move out of it and rent it to somebody else, you can deduct depreciation. But you are denied this privilege if you continue to live in your own house in order to establish a stable family which will be a credit to your country."

All through this editorial the assumption is made that the allowance of a depreciation deduction by the home owner is a "right" which he has been denied by an arbitrary government.

I am not at all certain that it might not be advisable to increase the incentive for home ownership in the United States, as I believe that home ownership increases the responsibility of the citizenry and contributes greatly to the character of the nation. This depreciation allowance, however, which the National Association of Real Estate Boards is now endorsing as a "right" should be called by its proper term. It is not a right. The allowance of a depreciation deduction for income tax purposes would be a direct subsidy by the Federal government - as much of a subsidy as is given to any other group who have been able to bring sufficient pressure on the Federal government to secure special privileges of one sort or another. I have opposed subsidies to farmers and to all other groups in our economy. I would not be intellectually honest if I did not oppose them for the owners of real estate.

Let us look at the facts of the case to see whether the Treasury Department has discriminated against the home owner in refusing to allow this depreciation deduction for income tax purposes. We are told in these articles that everyone else who has any kind of physical asset is given this privilege of deducting for depreciation. We are told that if you own an oil well or a

mine you are allowed to deduct for depletion. It might also be added that you can deduct for the electric current you use, for the fuel you consume and for every other item of operation, maintenance and repair. If you own a commercial or industrial building and it needs a new roof you can reroof it and make a deduction in your income tax for the cost of the roof. There is just as much justification in asking that the home owner be allowed to deduct all operating and maintenance expenses of his home from his income tax as there is in claiming that he is entitled to a deduction for depreciation.

The fallacy in all of the reasoning and in the analogies used is that all of these deductions should be allowed provided that the income from the use of the property is included in the gross income shown on the income tax return. This is done in the case of an oil well or a mine. It is done in the ownership of a commercial or industrial building. It is done in the house which is rented to anyone other than the owner, but it is not done in the house which the owner rents to himself. If the owner were required to include in his income the rental value of the home which he occupies himself, he would clearly be entitled to deduct not only for depreciation but for maintenance and operation as well.

In England the home owner is allowed to deduct for depreciation but he must also include in his income the rental value of his property on exactly the same basis as he would include it if this property were occupied by another. A man owning a residence which would normally rent in the market for $100 a month under this plan must include in his income the $1200 item which would represent the rental value of his property. From this he can, of course, deduct depreciation and also an amount for maintenance. This deduction for maintenance in England is set at a definite percentage of the gross rental, with a provision for special appeal in cases where maintenance regularly runs above the allowable percentage.

It should also be remembered that if depreciation were deductible on the house occupied by the owner, on its sale the profit or loss for income tax purposes would be figured not from the original cost but from the depreciated cost at the time of sale. This would increase the tax in that year.

I have just finished reading Good Shelter for Everyone, published by the Department of Research and Education of the CIO. I believe that many of the criticisms that I would have against the National Association plan would hold equally well against that advocated by the CIO. This group, too, seems to think that the government has unlimited funds which it can allocate to housing. Its plan would cost more each year than the total value of all the wheat, oats, barley, corn and other grains raised in the United States, with a possibility that the cost might double or triple this amount. It plugs a 2½% interest rate on small homes and a 2% rate on large-scale projects. It does not seem to realize that interest rates cannot be set arbitrarily but must rise and fall in order to induce sufficient capital to enter the field under competitive conditions as they exist at the time.

In regard to rent control, this booklet states as follows: "The rent control program of the Federal government, which has been the most effective part of the entire price-stabilization program, must be continued and defended against attack. Inasmuch as the outlook for the immediate post-war period is one of continued scarcity and high demand, it is essential that rent control policies be continued into the post-war years. It is probable that rent

control should be made a permanent feature of the economy."

Rent control, as pointed out earlier in this letter, froze rentals at a level much below a justified return and the CIO is trying to acquire a vested interest in depression rents, with wages per hour at a greatly advanced rate. There is no surer way of preventing any large volume of new building than to attempt to hold the return on the investment in housing at a substandard level.

The CIO also suggests that the low rent housing program should be expanded "to permit the provision of rental housing to the middle-income group whose needs are not now met by either private or public enterprise."

The complaint can be raised against my criticisms that I have taken a negative attitude and have criticized efforts to accomplish worthy purposes without offering any alternative suggestions. This is true! However, I no longer believe in the curative effects of panaceas.

The only solution that I can see at the present time for our blighted area problem is the strict enforcement of the police powers of the State, in condemning totally dilapidated, unsafe and unsanitary housing. If this power were rigidly used, it would speed up obsolescence, it would shorten the expected life of new buildings and would necessitate larger amortization payments on the loan in the early life of a building. This would prevent old and obsolete buildings from getting to the point where they were no longer economically useful, while they still carried loans too heavy to be supported by the type of tenantry available to them. In my opinion it would not be wise to bail out the owner of obsolete private properties paying for an equity which doesn't exist and hasn't existed for a great many years. I see no particular reason why the Federal government should socialize the lack of prudence on the part of former owners of the property.

As more and more space is opened up in the blighted areas through the wrecking of totally obsolete buildings, the ideas of land values in these areas will come down to actual reality. Only when this ground is valued at its real worth for redevelopment will any large-scale solution of these areas be practical. In my opinion this will take a period of years rather than months.

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